

CHAPTER 7

ACCOUNTING AND RECORDKEEPING

I. **INTRODUCTION.**

This chapter will discuss how to establish and maintain financial and program records for your grant.

II. **GRANTEE RESPONSIBILITIES**

You must be able to document how you spent your grant and accomplished the intended objectives and benefit in accordance with the contract and applicable State and federal laws. This section covers the required and recommended financial and program recordkeeping. The topics covered are:

A. Financial recordkeeping

1. Record of CDBG funds received
2. Record of CDBG funds disbursed
3. Documentation of CDBG expenditures
4. Accrued expenditures
5. Escrow accounts
6. Subsidiary records
7. Review of expenditures
8. Other files
9. Records retention

B. Program recordkeeping

1. Public information file
2. General reference
3. Financial management
4. Environmental review
5. Equal opportunity
6. Procurement
7. Construction contracts and labor standards
8. Relocation and Acquisition
9. Housing rehabilitation
10. Housing Acquisition - Homebuyer Programs
11. Economic development

- A. **Financial recordkeeping** You must maintain a financial management system that provides accurate, current, and complete disclosure of the financial status of each

grant-supported activity. The system must be capable of generating any financial status reports required by the Department and include procedures for determining whether charges to the grant are reasonable, allowable, and allocable.

The following are the minimum requirements to account for your grant. You may use your jurisdiction's own accounting standards and procedures when they meet or exceed these minimal requirements.

1. Record of CDBG funds received: The CDBG funds received must be accounted for separately by grant and maintained so that the total CDBG funds received can be verified for any given period of time. Your accounting records must record the date the funds were received and be traceable to the bank account used. If account numbers are used, a separate account number should be set up for each grant.
2. Record of CDBG funds disbursed: Your disbursement of CDBG funds must be accounted for separately by grant and grant activity. For example, if you have two current grants, one general grant for housing rehabilitation and public works, and one economic development planning and technical assistance grant, you will keep separate expenditure accounts for each of the activities under each separate grant. You will need to record the date of payment, the name of payee and the warrant number and amount, and establish audit trails to the supporting source document.
3. Documentation of CDBG expenditures: All CDBG expenditures must be supported by source documentation such as invoices, timesheets, and travel claims. If the contract cost for a consultant, a CPA firm, engineering firm, or other organization is charged to the grant, keep with your financial files a copy of the contract, procurement procedures followed, and paid invoices (with supporting documentation for cost-reimbursement contracts).
4. Accrued expenditures: You are required to report accrued expenditures on the Program Activity Report (PAR) submitted to the Department (see Chapter 10). Basically, accrued expenditures include bills paid as well as costs incurred but not yet paid. However, for housing rehabilitation activities only, accrued expenditures may include the total amount of homeowner loans approved but not yet funded (see number 5 following).
5. Escrow Account: Housing rehabilitation funds may be drawn and deposited into an **escrow account** if the construction contract between the property owner and the rehabilitation contractor specifically provides that payment to the contractor shall be made through an escrow account. No deposits to the escrow account shall be made until after the contract between the two parties has been executed. A single, interest bearing account with a financial institution shall be used. Separate accounts for individual loans and grants are

not allowed.

Only costs incurred by the contractor for the required rehabilitation work can be paid from the escrow account. Any funds not used within 22 working days must be transferred back to the program. Unused funds returned to the program account should not be treated as program income. Other allowable costs such as administrative costs are not permissible uses of escrowed funds. Upon completion of all rehabilitation activities utilizing such a third party or grantee controlled account, return any unspent funds to your program account to complete additional rehabilitation activities. These funds are not to be treated as program income.

Any interest or investment revenue earned on these accounts, after deducting any service charges for the account, must be remitted to the Department at least quarterly.

6. Subsidiary records: If your local system does not allow you to account for the receipt and disbursement of CDBG funds to the level of detail required under items A.1 and 2 above, you should use subsidiary records to account for the grant funds. The subsidiary records must be supported and reconciled to the official accounting records. Subsidiary records can also be used to account for accrued costs reported to the Department.
7. Review of expenditures: You should have your local program staff review and approve vouchers and invoices to make sure the items are eligible costs pursuant to your contract and program regulations and that the cost is charged to the correct grant and program activity.
8. Other files: Besides the books listed above, your financial recordkeeping system should include correspondence between you and the Department regarding budget changes or authorizing any contract amendments, and the results and response to any fiscal monitoring findings. The State will monitor any files related to the grant including those of subrecipients, contractors and any administrative entity.
9. Records retention: All records pertaining to your CDBG grant must be retained for at least three years after expiration of the contract and any amendments, completion and resolution of the audit and/or any litigation, whichever is later. If there is any litigation, claim, or audit findings that extend beyond this three-year period, you must retain the records until all litigations, claims, or audit findings involving the records have been resolved. Records for property acquired with grant funds shall be retained for three years after final disposition. Records for any displaced person shall be retained for three years after the person has received a final relocation payment.

- B. Program recordkeeping** An Accounting and Recordkeeping Checklist is available in Section VI, Supporting Materials. You may want to photocopy these pages and clip and use the applicable checklists for your filing system. All original contract documents should be kept in a fire-proof file with copies kept in other locations including the files noted on the Checklist. Some items should be kept in multiple locations for ease of reference and use.

III. COMMON PROBLEMS

- Disorganized or missing files
- Inadequate accounting source documentation (invoices, timesheets, etc.)
- Inadequate accounting of receipts and disbursement of grant funds
- Indirect costs charged to grant without an approved indirect cost rate plan
- Inadequate procedures for verification of allowable costs
- Inadequate procedures for certifying subgrantee financial systems
- Inadequate separation of duties; i.e., person approving expenditures is also disbursing and recording

- IV. DEPARTMENT'S ROLE** The Department's fiscal staff will conduct an in-depth review of the grantee's financial management system for each grant, and are also available to assist in solving financial management problems as they occur.

CDBG staff review all program files during your grant monitoring visit and will offer suggestions for improvement as well as any required corrections.

V. REFERENCES

- State CDBG Regulations, Article 4, Grant Administration, Sections 7098 through 7124, provides uniform administrative requirements for grants to local governments.
- 24 CFR 85, referred to as the "HUD common rule," establishes administrative requirements for grants to local government.
- 24 CFR 570.489 sets requirements for fiscal controls and accounting procedures.
- 24 CFR 570.490 establishes general recordkeeping and retention requirements.
- Treasury Circular 1075, sets the policy for sound cash management practices.

- OMB Management Circular A -87 establishes principles and standards for determining costs applicable to grants, contracts, and other agreements with State and local governments.
- OMB Circular A-102, Grants and Cooperative Agreements with State and Local Governments describes the auditing requirements for local jurisdictions.

VI. SUPPORTING MATERIALS

- Accounting and Recordkeeping Checklist

ACCOUNTING AND RECORDKEEPING CHECKLIST

1. Public information file (kept for general public access):

- ___ State and federal CDBG Regulations
- ___ NOFA(s) under which you applied
- ___ CDBG grant application(s) as approved, and any amendments
- ___ Grant agreement(s) (contract) as approved and amended
- ___ State Economic Development Advisory Committee Report (ED grants)
- ___ Program Income Reuse Plan
- ___ Annual Program Income Reports
- ___ Program guidelines (if applicable)
- ___ Annual Grantee Performance Reports
- ___ Semi-Annual Program Activity Reports
- ___ Other applicable reports (e.g., labor, lump -sum, ED.)
- ___ Monitoring and auditing letters and responses
- ___ Notices of public hearings and public meetings
- ___ List of attendees at public hearings
- ___ Minutes of public hearings
- ___ Written comments and responses regarding program activities

2. General reference:

- ___ State CDBG Regulations
- ___ Other State and federal laws, regulations
- ___ CDBG NOFA(s)
- ___ CDBG Grant Management Manual
- ___ CDBG Management Memoranda

3. Financial management:

- ___ CDBG grant agreement(s) as approved, and any amendments
- ___ Project budget (if in application) and any amendments
- ___ Records of CDBG funds received and disbursed
- ___ Subsidiary records, if any
- ___ Invoices and other source documentation of CDBG expenditures
- ___ Cash Requests
- ___ Lump-sum Drawdown Agreement (jurisdiction & financial institution)
- ___ Lump-sum Drawdown Reports
- ___ Semi-Annual Program Activity Reports
- ___ Annual Grantee Performance Reports
- ___ Correspondence regarding monitoring and audit findings
- ___ Annual audits submitted to State Controller's Office
- ___ Closeout documents (GPR, Certificate of Completion)
- ___ Program income accounting records

— Annual Program Income Report

4. Environmental review:

— Project description
— Finding of Exemption - NEPA
— Statutory Worksheet or Rehab. Environmental Review form
— Environmental Assessment
— Notices as published and distribution lists
— Request for Release of Funds
— Consultation letter from State Historic Preservation Office
— Clearance letters from Department
— Written comments and responses

5. Equal opportunity:

— Demographic data re: target area and beneficiaries
— Job recruitment, training, and hiring documents
— Demographic data re: employees, applicants, and interviewees
— Minority and women-owned business solicitation lists
— Affirmative Action employment and contracting policy
— Fair Housing activity documentation
— Section 3 documentation, records and reports
— Department of Labor forms re: construction contracts over \$10,000
— Section 504 compliance self-evaluation and documentation
— Semi-annual job tracking reports:
— TIG minorities and women hires
— Affirmative action goals

6. Procurement:

— Documentation of price quotes received for items or services procured with small purchase method, with copy of scope of work
— Request for Proposals (RFPs) and/or Invitations for Bid (IFBs)
— Public notices of RFPs or IFBs
— Mailing list of RFP or IFB recipients
— Qualification statements, proposals and/or bids received
— RFP ratings and documentation of selection process
— Documentation of selection for IFB if lowest bidder not selected
— Sole source justification and approval letters, if applicable
— Cost estimates/data used to determine cost reasonableness, with copy of scope of work
— Verification of contractor eligibility
— Signed contracts and all approved amendments

7. Construction contracts and labor standards.:

- ___ Requests for wage decisions and modifications
- ___ Applicable federal and State wage decisions
- ___ Bid documents and specifications with labor and EO provisions
- ___ Evidence of 10-day wage determination update
- ___ Evidence of bid advertising
- ___ Verification of contractors' eligibility
- ___ Notice of contract award and documentation of why selected
- ___ Construction contracts with labor and EO provisions
- ___ Notice of start of construction
- ___ Performance and payment bonds
- ___ Minutes of pre-construction conference
- ___ Contractor's/subcontractor's certification re: Davis -Bacon, etc.
- ___ Copy of notice to proceed
- ___ Change orders as approved
- ___ Final inspections
- ___ Notice of completion
- ___ Authorization to execute weekly statement of compliance
- ___ Grantee's D.O.L. notification of contracts and subcontracts awarded
- ___ Related memos and correspondence
- ___ Files for each contractor including:
 - ___ Contractor's and subcontractors' certifications
 - ___ Payrolls and Statements of Compliance for each week
 - ___ Employee interview records
 - ___ Trainee/apprentice program certification/registration
 - ___ Letters authorizing payroll deductions
 - ___ Letters authorizing fringe benefit funds

8. Relocation and Acquisition.:

Relocation:

- ___ Housing survey
- ___ Relocation diary
- ___ Completed household case record
- ___ Income certification
- ___ Notice of intent to displace
- ___ Relocation needs survey
- ___ Request for tax return
- ___ Notice of eligibility and conditional entitlement letters:
 - ___ Temporary relocation
 - ___ Targeted income group persons
 - ___ Rental assistance
 - ___ Non-tenured

- ___ Owner/occupancy
- ___ Relocation waiver
- ___ 90-day notice to vacate
- ___ Evidence of receipt of 90 -day notice to vacate/relocate
- ___ Evidence of referrals to replacement housing
- ___ 30-day notice to vacate
- ___ Displacement property data
- ___ Comparable replacement property data
- ___ Record of inspection of replacement and referral units
- ___ Claim for actual moving expense
- ___ Moving service authorization household goods
- ___ Claim for moving expense by schedule and dislocation allowance
- ___ Claim for replacement housing payment
- ___ Interest differential worksheet
- ___ Computation of amount of price differential
- ___ Last resort housing plan and family data record
- ___ Relocation payable/eligible accounting sheet
- ___ Escrow instruction worksheet #1
- ___ Escrow instruction worksheet #2
- ___ Loan balance worksheet
- ___ Loan termination worksheet
- ___ Appeals, if filed, and disposition

Acquisition:

- ___ Residential Antidisplacement and Relocation Assistance Plan
- ___ Comprehensive project list
- ___ Announcement
- ___ Notice of decision to appraise
- ___ Invitation for property owner to accompany an appraiser
- ___ Review of appraisal report
- ___ Statement of basis for determining just compensation
- ___ Written offer to purchase
- ___ Statement of settlement costs
- ___ Receipt for purchase price
- ___ If acquisition terminated, Notice of Intent Not to Acquire

9. Housing rehabilitation:

- ___ Program guidelines
- ___ Lump-sum drawdown reports

For each applicant household:

- _____ Completed loan application
- _____ Credit report
- _____ Mortgage verification
- _____ Income verification
- _____ Preliminary title report or lot book report
- _____ Appraisal
- _____ Hazard insurance binder
- _____ Floodplain insurance (if in floodplain)
- _____ Deed of trust
- _____ Promissory note
- _____ Truth in lending disclosure statement
- _____ Notice of right to rescind transaction
- _____ Notice of default for all loans listed on title report
- _____ Loan agreement
- _____ Fair lending notice
- _____ Documentation of any special circumstances that were considered when approving a loan/grant that do not comply with program guidelines or grant agreement (outside target area, etc.)
- _____ State Historic Preservation Office (SHPO) Determination of age of building and appropriate action taken
- _____ Affordability provisions, if applicable
- _____ Signed lead based paint notice
- _____ Inspection forms used to report deficiencies in unit
- _____ Work write-up/itemized costs
- _____ Sweat equity forms (record of type of labor, time, dollar valuation)
- _____ List of all contractors notified of rehabilitation bid opportunity
- _____ All bids submitted and evidence of review of cost reasonableness
- _____ Signed construction contract which includes:
 - _____ Equal opportunity provisions
 - _____ Liquidated damages clause
 - _____ Cancellation clause for nonperformance
 - _____ Payment schedule
- _____ Notice to all bidders regarding award
- _____ Verification of contractor's worker's compensation and liability insurance*
- _____ Verification of contractor's license and eligibility*
- _____ Record of contractor progress payments and payment approvals signed by all parties to the contract
- _____ Change orders for any work or costs different from that described in original specs and drawings signed by all parties to the contract
- _____ Notice of completion
- _____ Copy of building permit (with all signatures for approved work)
- _____ Reconstruction documents, if applicable:
 - _____ After reconstruction appraisal including land and at least one comparable sale
 - _____ Sale price (cite sources of data) of at least one comparable newly

constructed home (including land) sold within the last 12 months within the jurisdiction. (If there are no newly constructed homes in the jurisdiction, contact your CDBG representative)

- _____ Cost estimates for reconstruction and rehabilitation
- _____ Evidence that the structure has been occupied during the preceding 12 months, or vacate order from the local building inspector
- _____ Signed reconstruction forms
- _____ State approval of reconstruction request

* This document may be filed in a master contractor file rather than a copy filed in each loan/grant file.

10. Housing Acquisition - Homebuyer Programs:

- _____ Homebuyer Program guidelines

For each homebuyer:

- _____ Completed loan application
- _____ Credit report
- _____ Copies of first lender's loan documents
- _____ Income verification
- _____ Preliminary title report or lot book report
- _____ Appraisal
- _____ Hazard insurance binder
- _____ Floodplain insurance (if in floodplain)
- _____ Jurisdiction's Loan Documents:
 - _____ Deed of trust
 - _____ Promissory note
 - _____ Truth in lending disclosure statement
 - _____ Notice of right to rescind transaction
 - _____ Notice of default for all loans listed on title report
 - _____ Loan agreement
 - _____ Fair lending notice
- _____ Documentation of any special circumstances that were considered when approving a loan/grant that do not comply with program guidelines or grant agreement (outside target area, etc.)
- _____ Inspection forms used to report deficiencies in unit
- _____ Signed lead based paint notice
- _____ If acquisition with rehabilitation:
 - _____ Work write-up/itemized costs
 - _____ Sweat equity forms if applicable (record of type of labor, time, dollar valuation)
 - _____ List of all contractors notified of rehabilitation bid opportunity
 - _____ All bids submitted and evidence of review of cost reasonableness

- _____ Signed construction contract which includes:
 - _____ Equal opportunity provisions
 - _____ Liquidated damages clause
 - _____ Cancellation clause for nonperformance
 - _____ Payment schedule
- _____ Notice to all bidders regarding award
- _____ Verification of contractor's worker's compensation and liability insurance*
- _____ Verification of contractor's license and eligibility*
- _____ Record of contractor progress payments and payment approvals signed by all parties to the contract
- _____ Change orders for any work or costs different from that described in original specs and drawings signed by all parties to the contract
- _____ Notice of completion
- _____ Copy of building permit (with all signatures for approved work)
- _____ If acquisition with reconstruction:
 - _____ After-reconstruction appraisal including land and at least one comparable sale
 - _____ Sale price (cite sources of data) of at least one comparable newly constructed home (including land) sold within the last 12 months within the jurisdiction. (If there are no newly constructed homes in the jurisdiction, contact your CDBG representative)
 - _____ Cost estimates for reconstruction and rehabilitation
 - _____ Evidence that the structure has been occupied during the preceding 12 months, or vacate order from the local building inspector
 - _____ Signed reconstruction forms
 - _____ State approval of reconstruction request

* This document may be filed in a master contractor file rather than a copy filed in each loan/grant file.

11. Economic development:

- _____ CDBG loan agreement - copy
- _____ Private financial commitment(s)
- _____ Public funding commitment(s)
- _____ Reuse Plan: loan repayment and fair share fees
- _____ Other required permits or approvals
- _____ Benefit - Job Creation/Retention:
 - _____ Income verification files - CONFIDENTIAL
 - _____ Employment projection form
 - _____ Signed self-certifications
 - _____ Budget and milestones
 - _____ Employment and procurement plan and Recruitment and placement documentation

- Employment agreement (PIC)
- Job announcements, advertisements
- Semi-Annual jobs report - mandatory with TIG minority, women hires
- Annual jobs report - mandatory with TIG minority, women hires
- Close-out job reporting - mandatory with TIG minority, women hires
- Documentation establishing job retention (public notice of closure, etc.)

Note: A TIG job is not determined by the salary level of the job; it's only determined by the verification of the employee's total family income.

— Financial documentation of gap/need: CONFIDENTIAL

- Tax returns
- Financial statements
- Proformas
- Appraisal
- Business plan
- Private loan documents (commitments from conventional lenders)
- Purchase contracts
- Market analysis
- Current debt schedule
- "Appropriate" determination
- Public benefit determination

— Loan files:

- Legal documents file:
 - Promissory note
 - Loan agreement
 - Mortgage or deed of trust
 - General security agreement and UCC -1 filing with Secretary of State
 - Personal guaranty
 - Corporate guaranty
 - Subordination agreement
 - Loan servicing agreement
 - Life insurance policy and assignment
 - Hazard insurance policy and assignment
 - General resolution
 - Certificate of secretary
 - Opinion of counsel
 - Intercreditor agreement
 - Appropriate determination
 - Credit memo and loan committee acti on

— Credit File for Administrative Records:

- Correspondence (including notes from phone conversations)

- Loan review/credit analysis
 - Disbursement reports
 - Product information (where appropriate)
- Copies of all contracts, agreements, etc., from loan files which grantee deems to be frequently referenced.